have not increased bank credit because if it were so the rate of discount must have fallen, whereas on the evidence of statistics it has risen. Hobson thinks the quantity theorist is dependent for the validity of his argument upon the supposed fall in the rate of discount. But no one is more keenly aware of what does happen to discount and interest rates than the author of *Appreciation and Interest* and *The Rate of Interest*; and a knowledge of these writings should have made it clear that bank credit might be extended even with a rate of discount rising *pari passu* with the increase in the general rate of interest which accompanies rising prices.

A truly interesting part of the book is reached in the author's exposition of bank credit as increasingly and almost completely independent of the gold reserve. In his opinion, bank credit is founded on concrete forms of property. The element of truth in this contention would seem to lie in the fact that the liabilities of a bank are *secured* by its assets; that among these assets are the liabilities (*e.g.*, promissory notes) of business men, and that back of these are the general assets of these same men. But this well-known truth is not inconsistent with the other fact that banks find it necessary to relate their reserves to the amount of their demand liabilities. As long as this continues to be the case, there will continue to be a "normal" relation between money and bank credit. The part of the book which is presented as an original constructive contribution to the theory of prices has been reviewed with great particularity and with strongly adverse judgment, by Professor J. M. Keynes in the English *Economic Journal* for September, 1913. In this judgment the present reviewer concurs.

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The Influence of the Gold Supply on Prices and Profits. By Sir DAVID BARBOUR. (London: Macmillan and Company. 1913. Pp. xii, 104. $1.25.)

Sir David Barbour has in other publications made clear his strong belief in the quantity theory of money, and his further emphasis on that view in this, his latest work, is no surprise. His purpose, as stated in the preface, is "to show in what way the quantity of money affects prices and to explain the limitations involved in the assumption that 'other things are equal'." Ricardo's theory of the distribution of the precious metals is the

starting point, and economic influences are emphasized as the vital factors in the world's trade. The general level of prices is proportional to the quantity of money, the relation being expressed by the equation,

$$P = Q \times \frac{E}{W}$$

P represents the average level of prices, Q the quantity of money, E the efficiency of money, and W the total work to be performed.

Credit makes possible an economy in the use of gold and hence influences the general level of prices. New supplies of gold affect prices chiefly and primarily by temporarily lowering the rate of discount. Wholesale prices are first affected, retail prices, wages, etc., rising later. This lag in the advance of some prices leaves a margin of profit, hence more demand for loans and finally a higher rate of interest and discount. Since changes in the quantity of money do not affect all prices and wages simultaneously, many persons and classes in the community are injured while others are benefited. The last two chapters deal with the practical value of the quantity theory and the consequences of a general fall or rise in prices.

The volume thus gives a good summary of the quantity theory as it is generally accepted, and is of interest as the latest exposition of that much-discussed and much-abused explanation of prices. A reader, however, cannot but feel disappointed at the treatment. Since the appearance of Professor Fisher's volume *The Purchasing Power of Money* and the author's *The Standard of Value,* a very strong attack on the quantity theory has been presented by Mr. J. A. Hobson in *Gold, Prices and Wages.* No matter how one may dissent from Mr. Hobson's conclusions no writer on monetary theory can afford to ignore him. His contentions must be answered or the theory of money modified to meet his criticisms of it. This neglect is illustrated by the author's failure to discuss Mr. Hobson's insistence that "an acceleration of purchasing power is a large factor in the rise of prices" and that this "acceleration of purchasing power is not directly attributable to the increased output of gold."

In the preface one finds the assertion that the soundness of the quantity theory "is beyond question" and the announcement that the volume is to deal with the way the quantity of money affects prices and to explain what is meant by the assumption that "other things are equal." This is difficult to understand. How can one enter into the controversy except (as does the author) by dis-

cussing how and why changes in the quantity of money affect prices and to what extent other influences are of importance? In fact the volume is merely a restatement of the usual arguments for the quantity theory. Little that is original has been introduced into the treatment and the book cannot be viewed as a valuable contribution to the literature of the subject.

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Final Report of the Royal Commission on Indian Finance and Currency. Parliamentary Publication, Cd. 7236. (London: Wyman. 1914. Pp. 91. 9d.)

The Fowler Currency Committee of 1898 recommended for India a gold standard with an active circulation of gold coins. The report of this committee was received with favor by the Home and the Indian governments; nevertheless in the following years the mechanism of the Indian monetary system developed primarily upon the lines of an exchange standard rather than of a gold circulating currency. Alterations took place in the composition and location of the government's reserves so that large gold resources accumulated in London, and a rupee reserve was virtually established in India. Council drafts were sold in such large amounts that shipments of gold to India were in a large measure obviated, and, in the crisis of 1907, it was found that the sale of drafts upon the London gold reserves was the most efficient method of supporting exchange. As the Royal Commission of 1913 reported, "the measures taken to maintain the exchange value of the rupee have been . . . less in pursuance of the recommendations of the Committee of 1898 than supplementary to them."

Nevertheless the government had never renounced the ideal of a gold circulating currency, and it had become imperative that, either the mechanism of the exchange standard should be perfected, or a more vigorous program adopted for increasing the circulation of gold coins. The former of these alternatives is recommended by the Royal Commission of 1913 in a clearly written and, on the whole, convincing report.

The commission decided that, "It would not be to India's advantage to encourage an increased use of gold in the internal circulation," and that a mint for the coinage of gold should not be established unless Indian sentiment should genuinely demand it. It was recommended that the "Government should definitely un-